

New Issue: Andover (Town of) MA

CORRECTION TO TEXT NOV. 28, 2005 RELEASE: MOODY'S ASSIGNS Aaa RATING AND NEGATIVE OUTLOOK TO TOWN OF ANDOVER'S (MA) \$5.3 MILLION GENERAL OBLIGATION BONDS AND MIG 1 TO \$16.8 GENERAL OBLIGATION BOND ANTICIPATION NOTES

Aaa RATING AND NEGATIVE OUTLOOK APPLY TO \$92.4 MILLION IN OUTSTANDING DEBT, INCLUDING THIS ISSUE

Municipality
MA

Moody's Rating

ISSUE	RATING
General Obligation Bonds	Aaa
Sale Amount \$5,300,000	
Expected Sale Date 11/29/05	
Rating Description General Obligation	

Bond Anticipation Notes	MIG 1
Sale Amount \$3,846,000	
Expected Sale Date 11/29/05	
Rating Description Bond Anticipation Notes	

Bond Anticipation Notes	MIG 1
Sale Amount \$12,922,000	
Expected Sale Date 11/29/05	
Rating Description Bond Anticipation Notes	

Opinion

NEW YORK, Nov 28, 2005 -- Substitute eighth paragraph with the following: Moody's expects the town's low 1.2% overall debt burden to remain manageable given an above-average amortization schedule (72% in 10 years), and a large proportion of debt supported by user fees. When 60% state school building reimbursement is included, the debt burden declines to a more modest 0.8% of equalized value. Long-term borrowing over the next five years is expected to include \$5 million in General Fund-supported debt for various capital improvements. Additional enterprise-supported borrowing totaling approximately \$21.5 million is anticipated in fiscal 2007 and 2008 with debt service expected to be fully supported by betterments and water and sewer revenues. Revised release follows.

Moody's Investors Service has assigned a Aaa rating and negative outlook to the Town of Andover's \$5.3 million General Obligation Bonds and a MIG 1 rating to \$3.8 million General Obligation Bond Anticipation Notes (dated December 9, 2005 and payable June 9, 2006) and to \$12.9 million General Obligation Bond Anticipation Notes (dated December 9, 2005 and payable December 8, 2006). Moody's has affirmed the Aaa rating and assigned a negative outlook to the town's \$92.4 million outstanding long-term debt, including this issue. A portion of the bonds, \$3 million, and the \$3.8 million note issue are secured by the town's general obligation unlimited tax pledge as debt service has been excluded from the levy limits of Proposition 2 ½. Proceeds renew notes originally issued to finance school construction. The remainder of the bonds and the \$12.9 million note issue are secured by the town's limited tax pledge and finance additional school construction, water and sewer system improvements and other capital projects.

Affirmation of the Aaa rating reflects the town's diminished financial position following a decline in reserves in fiscal 2004, the town's substantial and diverse tax base with future growth opportunities, and its manageable debt position benefiting from self-supporting enterprises and state school construction grants. The short-term MIG 1 rating incorporates the strong underlying credit characteristics as well as proven access to capital markets. Assignment of the negative outlook reflects an anticipated second consecutive year with narrowing financial flexibility and continued structural imbalance in fiscal 2005, with additional appropriations of free cash used to offset escalating educational expenses and other pressures resulting in an additional operating deficit in fiscal 2006.

DEMONSTRATED MARKET ACCESS

Moody's anticipates that the town will continue to enjoy favorable access to capital markets based in its history from prior note sales. The town received eight bids on its two most recent note sales, dated June 15, 2005 and December 10, 2004 and five bids on each of its prior sales dated June 2004 and December 2003. All bids were received from major regional and national financial institutions. Moody's believes that this history indicates Andover's ability to refund the notes, if necessary, at the June and December 2006 maturities.

SATISFACTORY FINANCIAL POSITION DESPITE REDUCTION IN RESERVES

Moody's believes that Andover's financial position will remain challenged, despite historically strong new growth and the anticipated early 2006 receipt of up to \$3.4 million in cash released from the Northeast Solid Waste Consortium (NESWC), due to the town's reliance on free cash appropriations utilized to balance operating budgets. Results for fiscal 2004 indicate a reduction of the General Fund balance by \$3.03 million to \$10.778 million (10.3% of general fund revenues), reflecting under-budget local receipts and state aid reductions. Modest additional flexibility is provided by the Stabilization and Wood Memorial Funds, which ended fiscal 2004 with a combined balance of \$1.5 million, bringing total available reserves, including the funds and the undesignated general fund balance to an adequate 9.6% of revenues. Projections for fiscal 2005 include a \$1 million addition to the town's certified free cash, resulting largely from the release of approximately \$870,000 in funds previously held by the state to offset a capital project fund deficit. However, undesignated general fund balance is expected to decline to \$3.6 million (2.7% of general fund revenues) from a peak of \$6.6 million (7.2% of revenues) in fiscal 2001, a level out of compliance with Andover's approved policy to maintain between 3 and 7% of revenues in undesignated general fund balance. Management reports no firm plan to increase undesignated general fund balance, and does not expect to propose an override of Proposition 2 ½ to increase the tax levy and relieve pressure on the general fund. Strong expected revenues and modest unspent appropriations in fiscal 2005 are not expected to fully replenish the \$1.3 million appropriation of free cash as seen in the preliminary financial statements which project a total general fund balance decrease to \$9 million (a modest 6.9% of general fund revenues), a significant decline from \$13.8 million (11.8% of general fund revenues) in fiscal 2003.

The approved fiscal 2006 budget includes a \$5.24 million increase in expenditures, to be balanced by \$4 million in additional property tax revenue, a \$400,000 increase in state aid, with the remainder to be raised by increases in local receipts and revolving fund transfers. However, management reports that at least \$1.2 million in free cash has been appropriated in fiscal 2006, with \$700,000 earmarked for operating expenditures, a modest reduction from the previous year's appropriation of \$876,000. The final NESWC disbursement is expected to exceed the \$3 million already recognized in the town's general fund by approximately \$400,000; management reports that they expect the entire amount to be added to the town's certified free cash available at the end of fiscal 2006, and that town officials will recommend appropriation of the funds to the Stabilization Fund, however the proposed transfer would result in only a moderate increase in available reserves since \$3 million is already included in the town's unreserved general fund balance.

At 60.9% of revenues, local property taxes are the largest source of operating funds, and current-year tax collections remain well above 99%. Favorably, the town's retirement system is 70.5% funded (as of an actuarial study dated January 1, 2004) with the current funding schedule targeting full funding in 2024, four years earlier than the state mandate. Moody's continues to believe that failure to both restore the town's finances to structural balance in the short-term and to replenish and grow reserves, in step with budgetary expansion, to historically sound levels consistent with the Aaa rating category, could place downward pressure on the rating.

FAVORABLE LOCATION DRIVES STRONG GROWTH IN DIVERSE TAX BASE

Moody's expects continued expansion in Andover's sizeable \$6.6 billion tax base given its accessible location, a strong commercial and industrial sector (19% of assessed value in fiscal 2005), diverse high-end employment base, and availability of developable land. The town has seen solid growth rates, averaging 13.4% annually since 2000, reflecting continued expansion of commercial and industrial properties and significant market appreciation in the residential sector. Tax base growth, which slowed in fiscal 2004 and 2005, is expected to be resume at levels approximating the \$2 million historical five-year average, based on reportedly improving building permit activity. Management continues to see development plans spanning across all sectors, including significant new opportunities for commercial development in South Andover due to recently improved highway access. Benefiting from its location 22 miles north of Boston (rated Aa1/stable outlook) at the crossroads of Routes I-495 and I-93, the town has a number of large industrial parks and corporate campuses, including Raytheon (rated Baa3/stable outlook), Wyeth Biopharma (rated Baa1/developing outlook), and Procter & Gamble/Gillette (long-term senior unsecured debt rated Aa3/stable outlook). Future development includes the expansion of Eisai Laboratories' (rated A1/positive outlook) U.S. headquarters, located within the community, and the continued development of the Boston Properties (rated Baa2/stable outlook) site, adding over 100,000 square feet to the existing facility. Residential development is expected to continue with the construction of apartment and condominium units, which management expects will have minimal infrastructure demands for the town. Income levels in Andover remain well above state and national medians and the equalized value per capita is a very strong \$205,538.

MANAGEABLE DEBT POSITION SUPPORTED BY STATE SCHOOL CONSTRUCTION AID

Moody's expects the town's low 1.2% overall debt burden to remain manageable given an above-average amortization schedule (72% in 10 years), and a large proportion of debt supported by user fees. When 60% state school building reimbursement is included, the debt burden declines to a more modest 0.8% of equalized value. Long-term borrowing over the next five years is expected to include \$5 million in General Fund-supported debt for various capital improvements. Additional enterprise-supported borrowing totaling approximately \$21.5 million is anticipated in fiscal 2007 and 2008 with debt service expected to be fully supported by betterments and water and sewer revenues.

KEY STATISTICS

2000 population: 31,247

2005 Equalized Valuation: \$6.6 billion

Average Annual Equalized Valuation Growth (2000-2005): 13.4%

2005 Equalized Value per capita: \$205,538

MFI as % of commonwealth: 170.0%

PCI as % of commonwealth: 158.5%

Overall debt burden: 1.2%

Adjusted burden: 0.8%

Payout of principal (10 years): 72.0%

2004 General Fund balance: \$10.78 million (10.3% of General Fund revenues)

2005 General Fund balance (unaudited): \$9.02 million (6.9% of General Fund revenues)

2004 Available Reserves: \$8.96 million (8.6% of General Fund revenues)

2005 Available Reserves (unaudited): \$8 million (6.1% of General Fund revenues)

Outstanding long-term debt (including this issue): \$92.4 million

Outlook

OUTLOOK

Assignment of the negative outlook is based on the Andover's reduced financial flexibility, with reserve levels below state and national Aaa medians, resulting from escalating expenditure pressure from school, pension, salary and health insurance costs, coupled with the town's historical reliance on free cash appropriations which are only partially replenished.

What could move the rating UP (removal of negative outlook):

"Significant replenishment of reserves in fiscal 2006 (excess revenues and unspent appropriations in fiscal 2006 exceeding free cash appropriation)

"Return to structural balance in the short term including a substantial reduction in reliance on free cash appropriations for operating expenses

"Successful implementation of prudent financial policies, consistent with the Aaa rating category, governing reserve levels and use of free cash

What could move the rating DOWN:

"Greater than expected declines in financial flexibility for fiscal 2005

"Additional declines in total General Fund balance and available reserves in fiscal 2006, anticipated NESWC funds notwithstanding

"Lower than expected tax base growth and new growth revenue

"Continued reliance on free cash appropriations that are not fully replenished

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